

Message Text

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ACTION NEA-11

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C O N F I D E N T I A L JIDDA 3775

E.O. 11652: GDS
TAGS: EFIN, ECON, EAID, ELAB, EIND, EARL, SA
SUBJ: SAUDI DEVELOPMENT BUDGET AND PLANNING

1. SAUDI MINFIN ABA ALKHAYL RECENTLY NOTED IN PRESS INTERVIEW THAT SAG'S SECOND FIVE YEAR PLAN WOULD EXCEED ORIGINAL COST ESTIMATE OF \$142 BILLION BY \$60 BILLION, FOR TOTAL EXPENDITURE OF ABOUT \$200 BILLION. MINISTER'S COMMENT WAS FIRST TIME WE HAVE SEEN SENIOR SAG OFFICIAL OPENLY ADMIT EFFECT OF INFLATION ON COST OF PLAN. WE BELIEVE HIS STATEMENT IS IN FACT CONSERVATIVE IF DESIGNED TO MEASURE INCREASED COSTS OF ENTIRE PLAN AS ORIGINALLY DESIGNED IN 1974.

2. LOCAL INFLATION IS STILL RUNNING AT RATE OVER 10 PERCENT PER YEAR IN SPITE OF GOOD FIRST QUARTER FOR 1978, IN WHICH CONSUMER PRICE INDEX ACTUALLY DECLINED 4 PERCENT FROM END 1977 FIGURE. BASE COSTS OF MANY DEVELOPMENT PROJECTS, HOWEVER, HAVE BEEN SEVERELY AFFECTED BY HIGH LOCAL INFLATION RATES OF 1974-76 (OVER 50 PERCENT PER ANNUM AT PEAK), PLUS INCREASE IN COST OF IMPORTED GOODS.

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CURRENCY MOVEMENTS ARE CONTINUING TO AFFECT LATTER, AS SAUDIS IMPORT ABOUT A THIRD OF THEIR GOODS FROM JAPAN AND GERMANY. DILEMMA FOR SAUDI PLANNERS CONTINUES TO BE WHETHER TO IMPLEMENT PROJECTS IMMEDIATELY IN FEAR OF INCREASED COSTS LATER, OR TO CUT BACK OR STRETCH OUT IMPLEMENTATION IN HOPES OF MORE MEASURED GROWTH AND INFLATION RATES.

3. DURING THE PAST YEAR OR SO, SOME PARTS OF PLAN HAVE BEEN STRETCHED OUT (E.G., GAS GATHERING PROGRAM), CUT BACK (STEEL AND ALUMINUM PROJECTS), OR SIMPLY SLOWED DOWN FOR BUREAUCRATIC AND ADMINISTRATIVE REASONS (E.G., DESALINATION PROJECTS). THE SAG HAS NOT YET, HOWEVER, ABANDONED OR REDEFINED ANY OF THE GOALS IT SET IN THE 1974 PLAN. THE MINISTRIES HAVE IN FACT IMPROVED THEIR DISBURSEMENT RATE MARKEDLY. MINISTRY OF FINANCE OFFICIALS NOW EXPECT THAT OVER 90 PERCENT OF THE CURRENT YEAR'S REGULAR BUDGET WILL ACTUALLY BE SPEND (85 PERCENT HAD BEEN SPENT AS OF MAY 7).

4. THE NEW BUDGET, TO BE ANNOUNCED ABOUT JUNE 6, WILL PROBABLY MARK AN INCREASE OF 10-15 PERCENT OVER THE CURRENT LEVEL OF \$31.5 BILLION. THE 10-15 PERCENT BUDGET INCREASE IS PROBABLY THE MINIMUM INCREASE TO WHICH MINISTRY OF FINANCE OFFICIALS, IN THEIR DESIRE TO "THINK SMALL" (SEE JIDDA 0976) CAN HOLD BACK THE URGE TO SPEND ON THE PART OF MOST OF THE MINISTRIES WITH PROJECTS TO IMPLEMENT. MINISTRY OF FINANCE OFFICIALS EXPECT THAT ACTUAL EXPENDITURES WILL REACH OVER 95 PERCENT OF THE NEW BUDGET DURING THE COMING YEAR. WITH GENERAL REVENUES PERHAPS AS LOW AS \$35 BILLION IN 1978-79 DUE TO LOW OIL PRODUCTION, THERE MAY WELL AS A RESULT BE A SQUEEZE ON THE MORE MAR-
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GINAL DEVELOPMENT AND FOREIGN AID DISBURSEMENT. WE BELIEVE, HOWEVER, THAT RESUMPTION OF GROWTH IN DEMAND FOR OIL IN 1979 AND BEYOND WILL LEAD TO REVENUE INCREASES WHICH WILL RELIEVE ANY SHORT-TERM BUDGETARY PRESSURE.

5. THE THIRD FIVE YEAR PLAN (1980-84) IS NOW UNDER PRELIMINARY PREPARATION. MINISTRY OF PLANNING OFFICIALS HOPE THAT THE PLANNING PRECESS WILL FOCUS SAG ATTENTION ON THE NEED TO SET A STRATEGY AND PRIORITIES FOR THE COMING PERIOD, WHICH WILO SEE THE COMPLETION OF MANY OF THE PROJECTS LAUNCHED OR TO BE LAUNCHED DURING THE SECOND PLAN PERIOD (IT HAS LONG BEEN CLEAR THAT MOST OF THE MAJOR PROJECTS COULD NOT BE FINISHED BEFORE THE MID-1980'S AND WILL BE CARRIED OVER INTO THE THIRD PLAN). A RANGE OF GROWTH OPTIONS HAS BEEN PREPARED BY AN INTERMINISTERIAL COMMITTEE, AND SAG OFFICIALS HOPE FOR A MAJOR GOVERNMENTAL POLICY STATEMENT IN THE NEXT FEW WEEKS WHICH WILL SET THE PRIORITIES AND DEVELOPMENT POLICY FOR THE FUTURE. WITH PHYSICAL BOTTLENECKS AND INFLATION EXPECTED TO REMAIN FAIRLY WELL UNDER CONTROL, THE PLANNERS BELIEVE THAT THE MAJOR CONSTRAINT ON

FUTURE RATES OF GROWTH WILL BE THE READINESS OF THE
SAUDI GOVERNMENT AND SOCIETY TO ACCEPT AN INCREASED
INFLUX OF EXPATRIATE WORKERS. DEBATE ON THE TRADE-OFFS
INVOLVED, WE ARE TOLD, IS HEAVY IN SENIOR SAG CIRCLES.
WILEY

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